

U.S.-Japan Enhanced Initiative on Deregulation and Competition Policy

FACT SHEET

The following highlights the progress made during the first year of the U.S.-Japan Enhanced Initiative on Deregulation and Competition Policy, as announced in a joint report issued by President Clinton and Prime Minister Hashimoto today.

Telecommunications

Over-regulation and restrictive practices by Japan's incumbent telecommunications carriers have stifled competition and slowed growth in Japan's \$128 billion telecommunications and broadcasting services market. As a result, Japan's telephone rates are among the highest in the OECD.

Under the Enhanced Initiative, Japan agreed to adopt a new regime to lower the rates that telecommunications carriers must pay to connect to Japan's local telecommunications network (reduction in interconnection rates). When implemented at the target date of the year 2000, the long run incremental cost methodology (LRIC) which eliminates unjustified costs from interconnection will dramatically increase competitive opportunities. Prior to implementation of LRIC, Japan committed to reducing interconnection rates as much as possible, which should increase competitive conditions.

Japan has also agreed to introduce measures to facilitate access to land and physical facilities such as roads that new companies need to construct their own networks. In addition, the Japanese Government has agreed to liberalize its international services market by permitting companies to provide alternatives to traditional international service. These steps will reduce the huge fees U.S. carriers now pay to Japanese carriers, encourage new entrants into the Japanese market, and result in hundreds of millions of dollars of additional services and equipment sales in this sector over the next few years.

Japan has also relaxed restrictions in its satellite services market, permitting a more than doubling of the number of channels broadcasters can provide to Japanese consumers. Measures taken will save service providers in this market millions of dollars, and permit them to offer the innovative, consumer-oriented packaging which is transforming distribution of pay TV satellite services worldwide.

Japan will simplify a variety of standard procedures required to enter and operate throughout this sector, allow customer rates to be set freely, and give faster, less costly approval for wireless equipment. In addition, Japan will eliminate foreign investment restrictions in Kokusai Denwa Denshin (KDD), its \$3 billion international carrier.

Housing

The United States is a global leader in forest products and building materials exports, but Japanese regulatory measures and other barriers have severely restricted U.S. access to Japan's \$140 billion building materials market. Under the Enhanced initiative, U.S. and Japanese experts have focused on the \$38 billion wooden building materials market, of which U.S. firms supplied \$2.5 billion in products in 1997. To address adverse regulatory barriers and other concerns, Japan has agreed to reform its Building Standards Law. Under the revised system, outdated product specifications will be eliminated and builders and architects will be able to freely choose the materials used in the construction of a home, as long as specified structural requirements are performance-based rather than design-based.

In addition, new standards and product testing requirements will be brought into line with international norms, and compatible with U.S. practices. Japan will abolish the prohibition on three-story 2x4 construction in urban residential housing areas. This American-style construction, which accounts for only about 7% of Japan's 1.4 million annual residential housing starts, performed better than traditional Japanese post and beam housing in the recent Kobe earthquake. To facilitate this increasingly-popular construction style, Japan will recognize U.S. lumber grademarks, removing the requirement that U.S. lumber be recertified by a Japanese grading organization.

These deregulatory measures, which will be implemented over the next two years, will further open Japan's market to U.S. building materials and wood products manufacturers. Japan's overall efforts to eliminate discriminatory standards and regulations in this sector should result in approximately \$1 billion of additional sales for American companies. At the same time, these efforts will benefit Japanese consumers by making available more diverse, affordable, and safer housing.

Elimination of tariffs in this sector would complement these deregulation efforts by further cutting housing costs and opening markets. The APEC sectoral agenda, including wood tariffs elimination, is the focus of market-opening action this year.

Medical Devices/Pharmaceuticals

Japan's over-regulation of medical devices and pharmaceuticals has hindered the introduction of innovative, cost-effective American products into Japan's market, and kept many Japanese patients from receiving potential life-saving treatments.

Under the Enhanced Initiative, within two years, Japan will cut the approval period for new drugs by one-third, from 18 months to 12 months. This measure will allow the introduction of new medicines in Japan on a more timely basis which will benefit both Japanese consumers and U.S. manufacturers. American firms which currently have a 12-percent share of Japan's \$60 billion pharmaceuticals market, stand to reap substantial benefits from a faster drug approval process.

Japan will greatly expand the acceptance of foreign clinical data in its approval of new medical devices and pharmaceuticals, which will significantly reduce the time and expense U.S. firms must devote to new product testing and approvals. U.S. medical device firms currently sell over \$5.5 billion of equipment in Japan's \$20 billion medical device market each year. Faster introduction of innovative products means increased revenues for American firms.

Further, as it formulates health care reforms, Japan has agreed to place a higher priority on the introduction of innovative products to contain costs and improve health care. This action will facilitate the prompt introduction of innovative, cost-effective products for Japanese patients by U.S. firms, which are leaders in cutting-edge technologies in this sector.

Financial Services

Japan's pool of individual and institutional savings - valued at some \$10 trillion -- is the largest outside the United States. The Japanese Government's proposed "Big Bang" liberalization of its financial services industry, (which built upon the undertakings in the U.S.-Japan 1995 Agreement on Measures Regarding Financial Services), should substantially improve the ability of foreign financial services providers to reach customers in most segments of the Japanese financial system.

Among the important measures being taken under the "Big Bang" initiative are the liberalization of securities derivatives, easing the registration process for new securities companies, the promotion of a more vigorous asset-backed securities market, and a sharp expansion in the scope of financial activities and products allowed to banks and securities firms, including investment trust (mutual fund) products. In addition, stock options have been introduced, and brokerage commissions are to be fully liberalized. The April 1 revision of the Foreign Exchange Law is also expected to ease capital flows and access to foreign exchange.

While seeking additional specific rule changes, the United States is encouraging the full program of liberalization be carried out within or before the proposed schedule, and that the implementing regulations and ordinances be developed in a clear and transparent manner with provisions for public comment.

Distribution

Barriers to distribution in Japan have been central to the market access problems encountered by U.S. firms in many sectors, including glass, paper, and film. The Large Scale Retail Store Law (LSRSL) has been a significant impediment to the establishment, operation, and expansion of large retail stores. Under the law, gaining approval for construction of a new large store was lengthy and uncertain, and stores were often given strict limits on floor space, operating hours, and number of days the store could be open. Japan has agreed to abolish the LSRSL. Its replacement will limit the ability of local governments to restrict the opening and expansion of stores based only on such factors as traffic and noise. A smooth transition to the new pro-competitive regime will continue to be an important issue for discussion under the Enhanced

Initiative.

Japan is also undertaking significant measures to expedite customs clearance processing, which has been slow and cumbersome by international standards, raising costs for U.S. exporters and Japanese consumers. Japan has introduced a computerized system linking the Customs Agency with other agencies, and new or expanded pre-arrival and clearance-upon-arrival procedures. Continued reforms in this sector will be the subject of future regulatory discussions.

Competition Policy

The absence of vigorous competition in many sectors of Japan's economy has led to artificially high prices, low foreign investment, and severely restricted market access in many sectors where U.S. firms are globally competitive. Under the Enhanced Initiative, the Japanese Government will take specific steps to promote competition. The Japan Fair Trade Commission (JFTC) has agreed for the first time to survey Japan's top 2,000 firms to assess their Antimonopoly Law compliance programs as part of its effort to more vigorously enforce its antitrust laws. The JFTC also has agreed to begin following up on its industry surveys to ensure that firms take appropriate actions to correct practices about which the JFTC has raised concerns, including the film and glass sectors. The JFTC also will monitor Japanese manufacturers to ensure that they do not restrict foreign competition by threatening retaliation against distributors who handle imported products, a long-standing market access impediment.

Legal Services

The Japanese Diet has passed legislation that will reduce restrictions on foreign lawyers in Japan. In particular, the new law will reduce the length of experience required of foreign lawyers before they are allowed to register as foreign legal consultants in Japan (from five years to three years) and allow a foreign lawyer to count the time he spent practicing his home country's law in a third country toward meeting the experience required to register as a foreign legal consultant in Japan. Further, Japan has agreed to liberalize the ability of a foreign legal consultant to practice third country law in Japan, with written advice from foreign lawyers qualified in that third country.

Transparency and Other Government Practices

The Japanese Government is taking measures to increase the transparency of, and to reduce the burdens imposed by its administrative system. For example, the Japanese government is simplifying and accelerating the application process for licenses, permits, and other permits needed to do business in Japan, which have impeded the ability of U.S. firms to operate in the Japanese market.

Implementation of public notice and comment procedures, which historically have been developed in a "black box" to which only insiders have access, will be an important agenda item in future discussions under the Enhanced Initiative. Unlike the U.S. system which requires agencies to

provide a notice and comment process for new regulations, under Japan's system, Japanese ministries are under no obligation to do so.

Energy

Japan is beginning to deregulate its \$150 billion energy sector with the aim of reducing energy costs, which are among the highest in the industrialized world. The United States will work with Japan to address deregulation issues in the energy sector in a new experts group established under the Enhanced Initiative. In this forum, the United States will seek to enhance opportunities for U.S. firms, which are globally competitive in this sector, through the elimination of regulatory barriers. These barriers include burdensome regulations regarding inspection, testing, and replacement of equipment; limitations on the activities of energy service providers; the use of narrow, technical standards rather than performance-based standards; the lack of harmonization standards in Japan; and other costly and unnecessary regulations that discourage U.S. firms from entering the energy market. The first meeting of the experts group will occur this summer.